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THE ANALYTICAL STUDY OF CAPITAL STRUCTURE WITH REFERENCE TO SELECTED AUTOMOBILE COMPANIES

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ABSTRACT

This research paper covered the study of selected three automobile companies' capital structures, value of share and relationship between cost of capital, capital structure and value of share for the period 2011 to 2016.It is an attempt to find out proportion of debt and equity in selected companies capital structure. Graphical presentation is used for proportion of debt and equity in total capital structure. The correlation tools is used for analyzing relationship between value of share and total capital. This paper concluded that there is negative correlation between value of share and capital.

KEY WORDS: Capital structure, Share value, Automobile sector, relation between share value and capital.

1. Introduction

The capital structure is an arrangement of both long term as well as short-term financing. It contains equity share capital, commercial papers, debentures and other long term financing sources. Ideal capital structure is the proper combination of debt and equity in such way that would maximize companies' wealth in the market. The capital structure decision is puzzling task to every corporate entity because if the company has proper acquisition of capital from different sources then it would always better to minimize financial cost and increase wealth of share.

Every business has certain limitation to acquire the capital but whatever they have option from them they must select suitable alternatives. In this capital structure choice finance manager must know future circumstances of selected source for making the future plan. If company decides to issue debentures for expansion of business and fulfill the requirement of shortage capital then company should examine expectation of existing shareholders, it should not increase over expectation of shareholders from company and the same time it should also not increase financial cost by reducing tax benefits; henceforth this capital structure decision is sensitive issue in every corporate business model.

The different stake holders which are associated with company such as investors, suppliers they also keep focused on companies decision for getting more return from investment and this is a comes under capitalization to company.

This research paper structure is as follows:
In chapter first included introduction of covered area of research. Chapter two is prominent which covers existing research study. Chapter three includes objectives of study. Chapter three is the empirical part of the study in this data is described and analyzed and last chapter that is five provides conclusion of this entire study.

2. Literature Review

(Modigliani & Miller, June 1958) M-M were the first to introduce a prescribed model on evaluation of capital structure. In their pivotal papers (1958, 1963),they presented that the value of a firm is independent of its capital structure but only under the presumptions of there are perfect capital markets, no taxes, no risk of uncertainty,100 % dividend-payout ratio and uninterrupted cost of debt. If the corporate taxes are considered into account, the value of a firm increases with debt-equity ratio as result of interest payments being tax exempted. This model has been at the focus of the financial research till date. Over the periods this model has been criticized, supported and extended.

(Bhat, 1980) investigated the relationship between the financial leverage to profitability, growth, firm size, debt service coverage ratio, dividend payout ratio and income of the selected engineering industry by correlation and regression analysis. This study used data for selected engineering industry during the period 1973 to 1978.Size, growth rate and degree of operating leverage were not found significantly related to financial leverage but business risk, earning rate, debt service ratio and dividend payout ratio were found negatively related to financial leverage. They also found that operating leverage has positive but insignificant relationship with leverage. They concluded that institutional characteristics do matter in determinants of financial leverage.

(Harris & Raviv, June 1990) This study elucidated that capital structure theory depended on firms' debt effect on investors' information and on their capacity to management holds. They highlighted a firm quality which derived from vale of liquidation, default costs and investor beliefs. They concluded that ideal capital structure acquired through a trade-off amongst higher incurred cost of investigation and liquidation decisions

(Harris & Raviv, March 1991) this paper analyzed relationship between firms' leverage to investment opportunities, bankruptcy risk, firm's size, uniqueness, research and development, advertising expenditure, non-debt tax shields, and asset tangibility. It is concluded that there is positively relationship between leverage to firm's size, non-debt tax shields, asset tangibility, and investment opportunities but it is adversely correlated to bankruptcy risk, firm's uniqueness, research and development, and advertising expenditure.

(Myers S. C., Capital Structure, 2001) This paper concluded that the theories were not capable to decide the amount of debt and equity in total capital structure but certain theories were useful under several condition such as tradeoff theory states that debt gets additional tax advantage in total capital structure. The pecking order theory defined that if firm has shortage cash flow then firm should borrow the funds rather than issuing equity to meet the capital expenditure. The free cash flow theory explained that high debt amount in capital structure increase value even this occur the threat of financial agony and firm's exceeds operating cash flow will generates profitable investment opportunities. The free cash flow theory is specially framed for developed firms that are liable to excess invest.

3. Objectives of the study

1. To find out the impact of capital structure on value of share.

2. To find out the relationship between capital structure and value of share.

3. To study the proportion of debt and equity in capital structure.

4. Data collection and analysis

Required financial data collected from consolidated annual report of selected BSE listed automobile sector companies of the five financial years. The share value is calculated on the basis of average opening of financial year and closing of financial year.

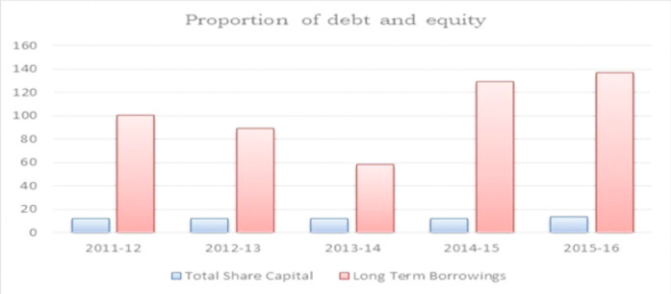
Company 1: Autoline Industries

Table no.1

(Rs. in Cr.)

Particulars/Financial Year	2015-16	2014-15	2013-14	2012-13	2011-12
Total Share Capital	13.23	12.34	12.29	12.25	12.20
Long Term Borrowings	137.13	128.88	58.65	88.99	100.48
Total Capital	150.36	141.22	70.94	101.24	112.68
Finance Costs	27.44	32.37	33.87	37.48	30.58
Equity Share Dividend	0	0	0	1.22	4.88
Share Value	78.4	101.925	98.875	199.825	222.9

Autoline Industries:



Graph no. 1

The above graph indicates that proportion of capital structure which raised through debt and equity.

The indications of graph is Autoline Industries has more portion of debt than equity in total capital amount; it shows high leverage firm.

The following table represent that there is negative correlation between total capital and share value of Autoline Industries. The value Pearson's co-efficient of correlation *r = -0.28288279.*

Table no.2

	Total Capital	Share Value
Total Capital	1	
Share Value	-0.28288279	1

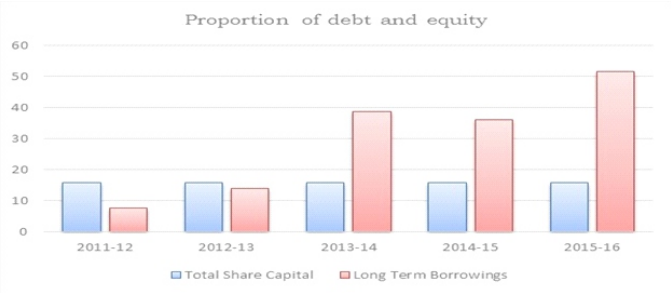
Company 2. Automotive Stampings and Assemblies

Table no.3

(Rs. in Cr.)

Particulars/Financial Year	2015-16	2014-15	2013-14	2012-13	2011-12
Total Share Capital	15.86	15.86	15.86	15.86	15.86
Long Term Borrowings	51.59	36.02	38.62	13.93	7.68
Total Capital	67.45	51.88	54.48	29.79	23.54
Finance Costs	9.33	8.24	6.64	4.74	5.46
Equity Share Dividend	0	0	0	0	2.38
Share Value	56.85	55.975	52.175	63.975	93.2

Automotive Stampings and Assemblies



Graph no. 2

The above graph indicates that position of capital structure which raised through debt and equity.

Over the year amount of debt has been increasing.

The following table represent that there is negative correlation between total capital and share value of Automotive Stampings and Assemblies .The value Pearson's co-efficient of correlation *r = -0.786405836.*

Table no.4

	Total Capital	Share Value
Total Capital	1	
Share Value	-0.786405836	1

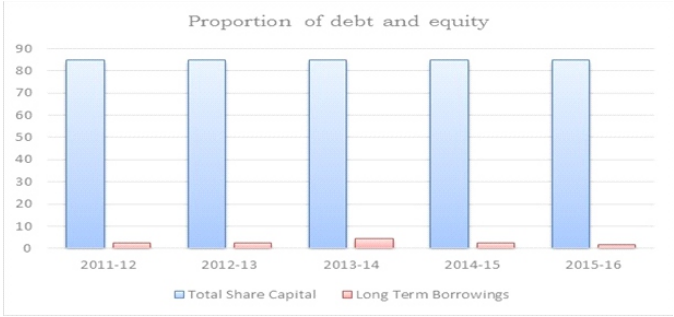
Company 3. Exide Industries

Table no.5

(Rs. in Cr.)

Particulars/Financial Year	2015-16	2014-15	2013-14	2012-13	2011-12
Total Share Capital	85.00	85.00	85.00	85.00	85.00
Long Term Borrowings	1.9	2.62	4.30	2.38	2.58
Total Capital	86.9	87.62	89.3	87.38	87.58
Finance Costs	1.65	3.21	7.61	9.06	14.91
Equity Share Dividend	204	187	153	136	127.5
Share Value	159.825	149.35	124.55	136.775	143.075

Exide Industries



Graph no.3

The above graph shows that the amount of share capital is constant since last five years but there slightly variation in amount of debt.

The following table represent that there is negative correlation between total capital and share value of Exide Industries. The value Pearson's co-efficient of correlation *r = -0.85960047.*

Table no.6

	Total Capital	Share Value
Total Capital	1	
Share Value	-0.85960047	1

5. Conclusion

Empirically it has been found that total capital has a negative and significant impact on value on share. It has also been found that selected companies capital structure varies according to requirement of capital. The Autoline Industries issued more debt securities for raising the long term capital. Hence, it is concluded that this company has high leverage. The second company is Automotive Stampings and Assemblies which have been increasing more amount of debt over the last five financial years and selected third company's Exide Industries the amount of capital is same for the last five years. Therefore, it is also concluded that in automobile sectors the portion of equity is high in total capital.

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